file

OUTBOARD MARINE Corporation

1966 ANNUAL REPORT

BOARD OF DIRECTORS

RALPH EVINRUDE, *Chairman of the Board and Chairman of the Executive Committee*

JAMES B. BRIGGS, *Vice President*

PERRY E. HALL, *Limited Partner, Morgan Stanley & Co.*

FINN T. IRGENS, *Vice President*

ISADORE LEVIN, *Partner, Butzel, Levin, Winston & Quint*

CHARLES E. NELSON, *President, Waukesha Motor Company*

CHARLES H. PERCY, *Former Chairman of the Board, Bell & Howell Company*

JOSEPH L. RAYNIAK, *Executive Vice President*

WILLIAM C. SCOTT, *President*

ROBERT F. WALLACE, *Vice President*

OFFICERS

RALPH EVINRUDE
Chairman of the Board and Chairman of the Executive Committee

WILLIAM C. SCOTT
President and General Manager

JOSEPH L. RAYNIAK
Executive Vice President

HAROLD L. BOURDON
Vice President—Manager, Gale Products Division

JAMES B. BRIGGS
Vice President—Non-Marine Products

JOHN R. CLARKE
Vice President—Industrial Relations

W. CLAY CONOVER
Vice President—Manager, Johnson Motors Division

HARRIS O. EWALD
Vice President—Manager, OMC Boats Division

FINN T. IRGENS
Vice President—Research and Engineering

EUGENE W. KREAGER
Vice President—Special Manufacturing Development

HOWARD F. LARSON
Vice President—Sales and Marketing, Marine Products

CURTIS T. MORRIS
Vice President—Manager, Cushman Motors Division

ROBERT H. SCOTT
Vice President—Manager, Evinrude Motors Division

ROBERT F. WALLACE
Vice President—Finance

EDGAR W. HOLLMANN
Treasurer

SHERWOOD L. RICHARDSON
Controller

JOHN R. SEEGER
Secretary

KEITH A. POPE
Assistant Treasurer

EDWARD J. HEALY
Assistant Secretary

GRACE F. SCHNEIDER
Assistant Secretary

DIVISIONS

Cushman Motors
CURTIS T. MORRIS, *Manager*

Evinrude Motors
ROBERT H. SCOTT, *Manager*

Gale Products
HAROLD L. BOURDON, *Manager*

Johnson Motors
W. CLAY CONOVER, *Manager*

OMC Boats
HARRIS O. EWALD, *Manager*

SUBSIDIARY COMPANIES

Outboard Marine Corporation of Canada Ltd.
THOMAS P. McMILLAN, *President*

Pioneer Saws Ltd.
J. DOUGLAS MENNELL, *President*

Outboard Marine International S.A.
JAMES J. BUTLER, JR., *President*

Outboard Marine Belgium S.A.
GERALD K. AHLERS, *Administrateur-Delegue (President)*

Outboard Marine Australia Pty. Limited
FRED W. MILTON, *General Manager*

TRANSFER AGENT First National City Bank of New York, N. Y.

REGISTRAR Bankers Trust Company, New York, N. Y.

STOCK EXCHANGE REGISTRATION New York Stock Exchange

PRINCIPAL EXECUTIVE OFFICE 100 Pershing Road, Waukegan, Illinois

HIGHLIGHTS OF THE YEAR

	1966	1965
Year Ended September 30:		
Net sales	$212,493,000	$180,712,000
Net earnings before income taxes	28,654,000	19,772,000
% to sales	13.5%	10.9%
Net earnings	15,666,000	10,642,000
Net earnings per share	$1.97	$1.35
Dividends per share paid on common stock	0.80	0.65
At September 30:		
Working capital	80,359,000	70,105,000
Long-term debt	13,463,000	14,537,000
Stockholders' equity—total	108,440,000	98,267,000
Stockholders' equity per share	$13.63	$12.45

SOURCE AND APPLICATION OF FUNDS

	1966	1965
Source:		
From operations—		
Net earnings	$15,666,000	$10,642,000
Depreciation	4,264,000	4,284,000
Amortization of tooling	3,360,000	3,448,000
Provision for deferred taxes	255,000	470,000
Other—Principally amortization of goodwill	272,000	285,000
	23,817,000	19,129,000
Proceeds from sale of—		
Plant and equipment (net)	662,000	174,000
Common stock (Executive Stock Option Plan)	859,000	52,000
	25,338,000	19,355,000
Application:		
Additions to plant and equipment	4,739,000	2,964,000
Tooling expenditures	2,565,000	3,295,000
Long-term debt maturing currently	1,073,000	1,136,000
Dividends	6,351,000	5,128,000
Other—Principally increases in deferred charges	355,000	561,000
	15,083,000	13,084,000
Increase in working capital	$10,255,000	$ 6,271,000

CONTENTS

To Our Stockholders:

Consolidated net sales of Outboard Marine Corporation in the year ended September 30, 1966 passed the $200 million mark for the first time in the Company's history. Net earnings also reached a new high. Consolidated net sales amounted to $212,493,477, up $31,781,345 or 18% over the 1965 total, while net earnings were up 47%, totaling $15,665,776 or $1.97 per share, compared with $10,641,943 or $1.35 per share in the previous year. Cash dividends totaling $6,351,193 or $0.80 per share were paid in fiscal 1966, compared with $5,127,974 or $0.65 per share in 1965.

Substantial volume increases were achieved in almost all product lines. Sales of boats, stern drive engines, lawn mowers, Cushman vehicles and snow vehicles were at record levels. Outboard motor sales were up almost 10% over 1965, and were at their highest level since 1960. Overseas sales of all products totaled $35,864,124, an increase of $2,936,681 or 9% over 1965.

Total stockholders' investment, as set forth in the accompanying financial statements, amounted to $108,440,000 at September 30, 1966. Net earnings for the year were equivalent to 15.2% of the average of such investment at the beginning and end of the year. This was the highest return since 1959 and, more importantly, further extended the improvement achieved during the previous four-year period. The steady growth of the Company since the 1961 recession which accompanied the end of the postwar recreational boating boom has been built on a broader and stronger foundation than existed prior to that time. Approximately 20% of our 1966 sales were made in product lines introduced since 1961. Also, during the past five years, our non-marine product sales have increased at an annual average rate of almost 16%, and in 1966 represented 27% of our total volume. Although the growth in marine product sales has been somewhat slower, averaging 8.5% per year, it has reflected a steadily expanding market for this basic segment of our business. In 1966, in the face of increased competition, our marine product sales were up 14% to an all-time high.

Of particular significance is the fact that all product lines operated profitably in 1966 and all except chain saws contributed materially to the earnings improvement over last year. The broadening of our profitable product base represents attainment of one of the principal goals of our long-range planning and cost reduction programs of the past several years and will permit greater flexibility in planning future growth.

Over the past ten years, the introduction of new products, the increase in sales volume and the continuing trend toward internal manufacture of formerly purchased components have been achieved with only a small increase in our net investment in plant and equipment. Since 1957, in which year we completed our last major expansion of plant facilities, net investment has increased only $2,300,000 or about 6%. It is significant to note that the production necessary to achieve our record 1966 sales and earnings required the over-capacity utilization of some facilities through the use of extended work weeks, deferred maintenance and extensive use of temporary outside storage of production materials, all of which added directly to cost and reduced efficiency.

Looking ahead to additional demands to be created by planned new products and expected normal growth in sales of present products, the Directors have considered and approved, as the first phase of a flexible five-year building program, a plan to construct 335,000 square feet, or about 10% additional manufacturing space in 1967. The extent to which succeeding phases of the program will be implemented and their timing will depend upon economic and new product development factors.

Included in the 1967 program are a new shell mold foundry at the Evinrude Motors Division in Milwaukee and general factory additions at the Gale Products Division in Galesburg, at the Johnson Motors Division in Waukegan, and at Outboard Marine Belgium S.A. in Bruges. These projects are expected to be completed and in operation by the latter half of the year.

Also in 1967 we shall continue to implement the long-range equipment modernization program, initiated in 1966. It is estimated that expenditures for both programs will total $13,500,000 in 1967.

On March 1, 1966 the Company entered into agreements with Curtiss-Wright Corporation, Wood-Ridge,

New Jersey and NSU Motorenwerke A.G./Wankel GmbH, Neckarsulm, Germany, whereby we acquired nonexclusive licenses to develop, manufacture and market throughout the world Wankel-type rotating combustion engines in certain of our products.

This engine, which is commonly referred to as the Wankel engine, has been the subject of a good deal of publicity in the past year in general publications and technical journals, and has aroused a great deal of interest in many branches of industry. Several other major corporations are conducting rotating combustion engine development programs under licenses from NSU/Wankel. Among these are Daimler-Benz in Germany, Rolls-Royce in England, Toyo Kogyo in Japan, and Alfa-Romeo in Italy.

The conclusion of the License Agreements marked the culmination of a cooperative development effort with Curtiss-Wright Corporation carried out over a period of several years. During this time, we extensively tested and evaluated models of the rotating combustion engine for marine and other uses. The results of our work led us to believe that this engine has an excellent potential, particularly in marine application. We are sufficiently satisfied of this potential to have paid sizeable initial license fees to our licensors and undertaken to pay royalties upon sales of these engines when we produce them. In our opinion, it may be possible for us to develop both outboard and stern drive engines—at least in certain horsepower ranges—which would be much lighter, smaller and freer of vibration than the reciprocating piston engines which are now used. It is also possible that eventually the rotating combustion engine may be profitably adopted to certain of our other products.

We have assigned a high priority to the project of analyzing and solving the practical problems of designing, tooling and eventual production of these engines on a commercial basis. We are pleased to report that substantial progress has been achieved and that it is reasonable to expect that the coming year will bring us much closer to completion of this project. However, it would be premature to predict at this time just when these engines may start making their appearance in our product lines and the extent to which they may supersede the conventional reciprocating piston engine.

The prospects for improved sales and earnings over the span of the next several years look promising. With increased capacity and product diversification, the Company will be in an excellent position to obtain an even greater share of the many expanding markets which it serves.

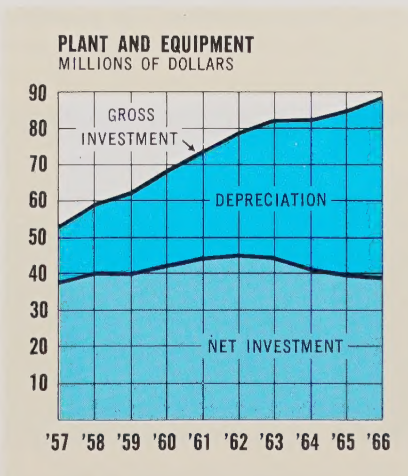
Short-term results must necessarily depend to a large extent upon the state of the general economy. The economic outlook for 1967 is somewhat uncertain at this time. The consensus seems to be that the present full employment and high level of personal income will continue at least through the first half of the calendar year. However, the extent and effect of any further action to slow the economy are major unknown factors at this time and warrant some caution.

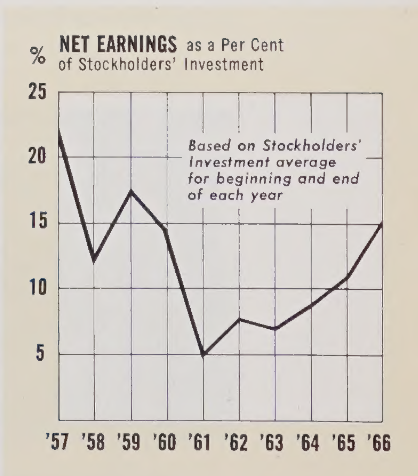
I am pleased to report to you several important management changes which were made during 1966. Mr. Charles H. Percy, eminent industrialist and former Chairman of the Board of Bell & Howell Company, and Mr. Robert F. Wallace, Financial Vice President of the Company, were elected to the Board of Directors. In June, 1966, Mr. Eugene W. Kreager, Vice President of the Company and formerly Manager of the Johnson Motors Division, was appointed to the newly created post of Director of Special Manufacturing Development. In this position he has been assigned responsibility for coordinating the engineering and manufacturing development, tooling and eventual production of the Wankel engines. Mr. W. Clay Conover, formerly Director of Marine Engineering, was appointed to replace Mr. Kreager as Johnson Division Manager and was elected a Vice President of the Company. Mr. Charles D. Strang joined the Company as the new Director of Marine Engineering. Mr. Strang has had many years of successful experience in this field and is very highly regarded in the industry. We believe these appointments have served to strengthen further the management team at Outboard Marine Corporation.

For the Board of Directors

President

December 12, 1966.





Operating Review

EMPLOYEES:

The average number of persons employed by the Company during 1966 totaled 10,206, an all-time high, and 482 more than the previous year. Because of the critical manpower shortage, the sharply increased production schedules were accomplished in large part through extensive overtime. This was reflected in total compensation paid to employees which averaged $7,314, compared to $6,865 in 1965. Total compensation includes benefits such as social security taxes, holidays and vacations, and retirement plan costs, as well as the Company's share of group insurance premiums.

Collective bargaining agreements were concluded with the several unions involved in the major Divisions of the Company, without interruption to production. Wage and employee benefits improvements were granted approximating a 4½% average increase in such benefits, calculated on an annual basis. The agreements extended through and beyond the 1967 fiscal year. Inasmuch as most of the increased benefits were granted immediately the impact on the cost of our products in 1967 will be somewhat greater.

Effective September 1, 1966, subject to ratification by its stockholders at their annual meeting on January 19, 1967, the Company has adopted a new pension program as an amendment of the pension plan which has been in effect since 1945 for employees of the Company and certain of its subsidiaries.

The current pension program consists of two plans; namely, the Pension Plan and the Retirement Plan. The principal difference between the prior and current Pension Plans relates to the benefit structure. The prior Plan paid benefits which were based upon the earnings of the participant, whereas the current Plan pays benefits based upon length of service. Another major change now permits advanced retirement at age 62 with full benefits earned to date, although normal retirement age remains at 65. Certain other less significant changes have been made, such as in benefits paid under circumstances of early retirement, disability, termination and death. The Retirement Plan is a supplementary plan limited to employees who are exempt from the overtime provisions of the United States Fair Labor Standards Act. Such employees are covered also by the current Pension Plan. The Retirement Plan pays retirement benefits based on percentages of earnings, which percentages vary according to length of service. All other provisions are substantially the same as in the current Pension Plan.

Controls from the top for trolling—swings out of the way for running.

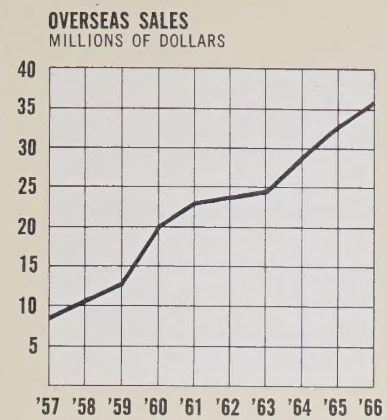
Under the current plans as under the prior one, all of the costs are paid by the Company. The unfunded prior service cost of the current plans is approximately $12,000,000. The period over which these past service amounts are to be funded is expected to be 30 years. The estimated aggregate annual payment to be made to pay current service costs and provide the funding of past service costs, with an interest assumption of 4% per annum, is approximately $2,850,000. The prior Plan was being funded on the basis of a 20-year period for the funding of past service costs and a 3½% interest assumption. The total cost in fiscal 1965, being the last year for which payment was made under the prior Plan, was $2,670,000. On the same basis, the total cost of the current plans for the year beginning September 1, 1966 would have been approximately $3,500,000. The Company has been advised by its actuarial counsel that the revised interest assumption of 4% per annum is more in line with anticipated yields and currently prevailing actuarial practice, and that in view of the average age of the participants in the new plans, a 30-year period for the funding of past service benefits more nearly approximates the average length of participants' future working careers.

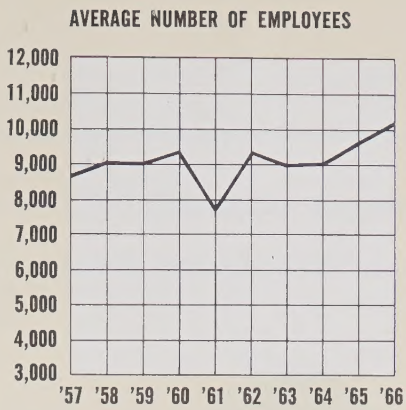
The current plans have been approved by the Internal Revenue Service as qualified plans under Section 401(a) of the Internal Revenue Code of 1954. Certain minor amendments to the current plans are pending before the I.R.S., and will be adopted only if approved.

At September 1, 1966, the number of persons covered by the current Pension Plan was approximately 7,700, the same number as was covered under the prior Plan on August 31, 1966. The number of persons covered by the Retirement Plan at September 1, 1966 was approximately 1,000.

OPERATIONS:

The Company has five domestic divisions and five foreign subsidiaries. Under an integrated manufacturing system, three of the divisions specialize in the fabrication of component parts for other divisions and subsidiaries as well as final assembly of their own products. Such high volume production has made feasible the development of specialized





manufacturing techniques that have contributed materially to cost reduction and to the improvement of our products.

The Evinrude Motors Division manufactures outboard motors and snow vehicles, which it sells. It also sells boats which are made by the OMC Boats Division and diving units which are produced by the Gale Products Division. The Johnson Motors Division produces outboard motors which it sells and stern drive engines which are installed in our boat lines or sold to other boat manufacturers through Gale. Johnson also sells boats, snow vehicles and diving units. In addition to the products noted above, Gale manufactures and sells lawn and garden equipment and markets marine parts and accessories. Cushman Motors Division makes and sells three and four-wheel industrial vehicles and golf carts. All of the foregoing, except boats and wheeled vehicles, are produced and sold in Canada by Outboard Marine Corporation of Canada Ltd. This company also manufactures chain saws, which are marketed through Pioneer Saws Ltd. Overseas production and sales of outboard motors are carried on at Outboard Marine Belgium S.A. and Outboard Marine Australia Pty. Limited. The latter company also makes and sells chain saws. The Belgian company also markets other Company products which are manufactured in the United States and Canada, and commencing with the 1967 fiscal year it is producing and selling lawn and garden equipment, snow vehicles and chain saws. Outboard Marine International is a sales organization marketing the Company's products in Latin America and certain overseas countries.

Results of boat operations were substantially improved over 1965 and were profitable. Principal factors in the improvement were a significant increase in dollar volume resulting from a shift in sales to higher priced units, the introduction of a new line of Johnson boats, and the elimination of some unprofitable models. Manufacturing and operating cost reductions over the past several years have resulted in lowering the break-even point, so that further increases in boat sales volume can be expected to exert substantial leverage on profit margins.

Sales volume increases in 1966 also had a particularly favorable effect on earnings from operations of the relatively new snow vehicle and stern drive engine product lines, and of the lawn and garden equipment line. The latter also benefitted from the absence of certain nonrecurring charges incurred in 1965.

The Cushman vehicle operations continued to show improvement. Of particular significance were the excellent results from a pilot marketing program aimed at promoting the sales of industrial vehicles. This program will be expanded in 1967.

Chain saw sales were down 3% from 1965. The decline occurred in the United States market. In July steps were taken to reorganize and strengthen the U.S. marketing function. Marketing, promotional, and product development programs have been intensified and we believe that positive results from these programs will begin to appear in 1967.

FINANCIAL NOTES:

Consolidated inventories of raw materials, work in process, finished products and service parts totaled $57,556,831 at September 30, 1966, an increase of $8,085,591 over the same date last year. Approximately 75% of the increase was in finished products, representing principally 1967 models on which production was commenced earlier than on new models a year ago. This was due in part to the fact that a strike at one of our divisions in 1965 delayed new model production. Further, since initial 1967 production schedules are higher than last year, they were commenced earlier to prevent an overloaded work schedule in subsequent months.

Capital expenditures in 1966 totaled $4,738,687, which was $173,942 less than the total of the provision for depreciation and net assets retired during the year. Principal expenditures were in connection with the equipment modernization program referred to elsewhere in this Report. Also, during the year Outboard of Canada completed an 80,000 square foot product warehouse and, at September 30, 1966 had virtually completed an addition of approximately 39,000 square feet to its plant which was occupied in November. During the year the Canadian company sold a small branch plant in Trenton, Ontario, at a price slightly in excess of its carrying value. The plant had been inoperative since boat production was transferred to Waukegan in 1965.

The investment credit against Federal income taxes resulting from 1966 capital additions amounted to approximately $200,000 and has been reflected in earnings for the year. The comparable credit for 1965 was $115,000.

OUTBOARD MARINE CORPORATION and Subsidiaries

STATEMENT OF CONSOLIDATED EARNINGS

For the years ended September 30, 1966 and 1965

			Per Cent to Net Sales	
	1966	1965	1966	1965
NET SALES	$212,493,477	$180,712,132	100.0	100.0
COSTS AND EXPENSES, including depreciation of $4,264,099 in 1966 and $4,283,513 in 1965:				
Cost of goods sold	135,212,695	117,629,845	63.6	65.1
Product research and development expenses	8,349,763	6,771,814	3.9	3.8
Shipping expenses	4,441,222	3,824,922	2.1	2.1
Selling and advertising expenses	21,518,824	19,023,081	10.1	10.5
General and administrative expenses	12,723,836	12,367,835	6.0	6.9
Interest and other expenses, net of other income	1,592,848	1,322,924	.8	.7
Total	183,839,188	160,940,421	86.5	89.1
Earnings before provision for income taxes	28,654,289	19,771,711	13.5	10.9
PROVISION FOR INCOME TAXES	12,988,513	9,129,768	6.1	5.0
Net earnings for the year	$ 15,665,776	$ 10,641,943	7.4	5.9

The accompanying notes to consolidated financial statements are an integral part of this statement.

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

September 30, 1966 and 1965

	1966	1965
CURRENT ASSETS:		
Cash	$ 6,197,127	$ 9,490,389
U. S. Government and other marketable obligations, at cost, including accrued interest	11,627,512	5,520,308
Receivables, less reserve, $185,000 in 1966 and $175,000 in 1965	24,526,499	22,530,616
Inventories, priced at lower of cost (first-in, first-out) or market—		
Finished product	16,634,666	10,418,631
Work in process, production parts, service parts and raw materials	40,922,165	39,052,609
Total current assets	99,907,969	87,012,553
CURRENT LIABILITIES:		
Accounts payable	10,755,675	8,571,613
Accrued liabilities	5,720,248	5,553,086
Provision for Federal, state and foreign income taxes (less U. S. Government and other marketable obligations of $6,470,000 in 1966 and $4,055,000 in 1965)	1,999,114	1,647,249
Current maturities and sinking fund requirements of long-term debt	1,073,440	1,135,940
Total current liabilities	19,548,477	16,907,888
Net current assets (working capital)	80,359,492	70,104,665
DEFERRED CHARGES, ETC.:		
Tooling	2,478,567	3,273,849
Prepaid insurance, pension costs, and other expenses	3,988,205	3,570,378
	6,466,772	6,844,227
PLANT AND EQUIPMENT, at cost:		
Land and land improvements	3,535,983	3,052,333
Buildings and fixtures	36,115,714	36,394,185
Machinery and equipment	47,703,707	45,287,016
Construction in progress	1,219,037	493,263
Total	88,574,441	85,226,797
Less—Accumulated depreciation	48,714,507	45,192,921
Plant and equipment, net	39,859,934	40,033,876
GOODWILL acquired in acquisition of subsidiaries, less accumulated amortization	—	177,523
	126,686,198	117,160,291
DEDUCT:		
Long-term debt, net of current maturities and sinking fund requirements included above (Note 1)	13,463,440	14,536,880
Provision for deferred incentive compensation	547,758	471,532
Provision in lieu of income taxes on income of foreign subsidiaries	2,040,000	1,945,000
Provision for deferred United States income taxes	2,195,000	1,940,000
	18,246,198	18,893,412
Net assets provided by stockholders' investment	$108,440,000	$ 98,266,879
STOCKHOLDERS' INVESTMENT:		
Common stock (Note 2)— Authorized 13,500,000 shares of $.30 par value Issued 7,954,217 shares in 1966 and 7,891,467 shares in 1965	$ 2,386,265	$ 2,367,440
Capital in excess of par value of common stock, per accompanying statement (Note 2)	30,161,422	29,321,709
Accumulated earnings employed in the business, per accompanying statement (Note 1)	75,892,313	66,577,730
	$108,440,000	$ 98,266,879

The accompanying notes to consolidated financial statements are an integral part of this statement.

OUTBOARD MARINE CORPORATION and Subsidiaries

Statements of consolidated accumulated earnings employed in the business and capital in excess of par value of common stock for the years ended September 30, 1966 and 1965

Consolidated Accumulated Earnings Employed in the Business	1966	1965
BALANCE AT BEGINNING OF YEAR	$66,577,730	$61,063,761
ADD—Net earnings for the year, per accompanying statement	15,665,776	10,641,943
	82,243,506	71,705,704
DEDUCT—Cash dividends paid, $.80 per share in 1966, and $.65 per share in 1965	6,351,193	5,127,974
BALANCE AT END OF YEAR (Note 1)	$75,892,313	$66,577,730

Capital in Excess of Par Value of Common Stock	1966	1965
BALANCE AT BEGINNING OF YEAR	$29,321,709	$29,271,342
ADD—Excess of proceeds over par value of common stock issued under the stock option plan (Note 2)	839,713	50,367
BALANCE AT END OF YEAR	$30,161,422	$29,321,709

The accompanying notes to consolidated financial statements are an integral part of these statements.

To the Stockholders,

OUTBOARD MARINE CORPORATION:

We have examined the statement of consolidated financial position of OUTBOARD MARINE CORPORATION (a Delaware corporation) AND SUBSIDIARIES as of September 30, 1966, and the related statements of consolidated earnings, consolidated accumulated earnings employed in the business, capital in excess of par value of common stock and consolidated source and application of funds (on page 1) for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the year ended September 30, 1965.

In our opinion, the accompanying consolidated statements referred to above present fairly the financial position of the companies as of September 30, 1966, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Milwaukee, Wisconsin,
October 31, 1966.

OUTBOARD MARINE CORPORATION and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 1966

(1) Long-term debt, net of current maturities and sinking fund requirements included in current liabilities:

	Balance Payable Septem	
	1966	196
Parent company—		
4¼% note due in 1976 with semiannual sinking fund requirements of $250,000	$ 4,250,000	$ 4,750
5% notes due in 1982 with fixed sinking fund payments of varying annual amounts	8,650,000	9,00
	12,900,000	13,75
Belgium subsidiary—		
3% mortgage note, payable annually to 1968	53,440	10
6¼% and 6½% notes, payable in five annual installments from 1966	342,000	45
6½% mortgage notes, payable in five annual installments from 1966	168,000	22
	563,440	78
	$13,463,440	$14,53

The loan agreements covering the 4¼% and 5% notes contain, among other things, restrictions on the payment of cash dends, capital distributions and purchase, redemption or retirement of shares of common stock. Under the terms of these a ments, $39,214,375 of the consolidated accumulated earnings employed in the business was restricted as of September 30, 1

(2) As approved by the stockholders on January 19, 1956, 300,000 shares of common stock were reserved for options to officers executive employees at not less than 95% of the fair market value at date of grant, exercisable not later than 5 or 10 years date of grant. At September 30, 1966, options had been granted for 241,200 of the reserved shares, with options on 64,550 sh not exercised. During the year options to purchase 62,750 shares were exercised at an aggregate price of $858,538 and opt for 21,400 shares lapsed. 58,800 shares remain available for future grants under this plan. However, it is the Company's inten to make future option grants under the 1967 Executive Stock Option Plan described below.

As approved by the Board of Directors, but subject to approval by the stockholders, under a new 1967 Executive Stock Op Plan, 300,000 shares of common stock will be reserved for options to officers and executive employees at not less than 10 of the fair market value at date of grant, exercisable not later than 5 years after date of grant.

(3) The Company and its subsidiaries have trusteed and insured pension plans for substantially all employees. At September 1, 1 the Company adopted new trusteed noncontributory pension and retirement plans. (Refer to page 4 of the Annual Report Stockholders for additional details.)

Total pension and retirement costs were $3,158,000 for the year, including the new pension and retirement plans having annual cost of $2,850,000, of which $645,000 is applicable to past service costs, and interest thereon, which are being char to expense in equal amounts over a 30-year period. It is the Company's intention to fund the past service costs during this peri

(4) At September 30, 1966, tooling costs of $2,478,567 for outboard motors and other products were deferred until future peri Prior to 1966, tooling for outboard motors was deferred until the first year the model was offered for sale; basic tooling for oth products was amortized over a three-year period. However, inasmuch as basic outboard tooling is actually being used over sever model years, it has been decided that such tooling will also be amortized over the longer period when appropriate, up to maximum of three years. This change had no effect on earnings for 1966, and it is expected that any effect on 1967 earning will be immaterial.

BOARD MARINE CORPORATION and Subsidiaries — **TEN YEAR SUMMARY**

	1966	1965
For Year Ended September 30:		
Net sales		
Marine products and parts	$156,024	$135,034
Power mowers, garden implements and parts	18,984	16,192
Vehicles and parts	15,047	14,089
Chain saws and parts	9,104	9,415
Snow vehicles	10,472	5,096
Miscellaneous products	2,862	886
Total	212,493	180,712
Earnings before income taxes	28,654	19,772
% of sales	13.5%	10.9%
Net earnings	15,666	10,642
% of sales	7.4%	5.9%
Cash dividends paid on		
Common stock	6,351	5,128
Preferred stock of subsidiary	—	—
Earnings reinvested	9,315	5,514
% of net earnings	59.5%	51.8%
At September 30:		
Working capital	80,359	70,105
Plant and equipment (gross)	88,574	85,227
Total assets	146,235	134,068
Long-term debt	13,463	14,537
Common stockholders' equity	108,440	98,267
Issued shares of common stock		
$0.30 par value or equivalent	7,954,217	7,891,467
Approximate number of stockholders as of record	22,000	22,000
Per Share on Common Stock (adjusted for stock dividends and splits):		
Net earnings (based on average number of shares)	1.97	1.35
Cash dividends paid	.80	.65
Book value at September 30	13.63	12.45

*For the period from June 1 to September 30
**After giving effect to payment of cash dividend on preferred stock of subsidiary.

1964	1963	1962	1961	1960	1959	1958	1957
		(in thousands of dollars)					
$129,655	$112,977	$116,822	$104,284	$141,194	$139,316	$130,768	$124,796
16,386	14,249	12,088	9,516	10,259	10,786	11,220	12,148
13,187	13,794	13,780	10,198	11,094	12,498	9,781	4,064*
8,901	9,541	8,826	7,851	8,389	7,130	3,861	7,721
—	—	—	—	—	—	—	—
1,882	2,495	345	486	456	1,839	3,083	1,747
170,011	153,056	151,861	132,335	171,392	171,569	158,713	150,476
14,379	10,542	10,757	5,786	22,832	28,111	18,838	27,937
8.5%	6.9%	7.1%	4.4%	13.3%	16.4%	11.9%	18.6%
8,053	6,505	7,036	4,774	12,568	13,785	9,095	13,071
4.7%	4.3%	4.6%	3.6%	7.3%	8.0%	5.7%	8.7%
3,547	4,727	6,303	6,301	6,295	6,272	6,256	5,149
—	232	232	243	255	—	—	—
4,506	1,546	501	(1,770)	6,018	7,513	2,839	7,922
55.9%	23.8%	7.1%	(37.1%)	47.9%	54.5%	31.2%	60.6%
63,833	61,120	58,387	59,920	65,162	55,391	49,190	42,664
82,982	82,380	79,254	73,920	68,573	62,804	59,396	53,618
128,832	126,465	128,960	123,222	127,078	119,301	105,727	100,218
15,673	16,639	17,605	18,083	18,399	18,490	20,045	14,679
92,701	88,087	86,541	86,023	87,748	81,453	73,563	70,433
7,887,567	7,879,367	7,879,267	7,877,967	7,874,567	7,854,337	7,826,137	7,804,067
20,000	22,000	22,000	20,000	16,000	14,000	12,000	9,000
1.02	.80**	.86**	.58**	1.56**	1.76	1.16	1.78
.45	.60	.80	.80	.80	.80	.80	.70
11.75	11.18	10.98	10.92	11.14	10.37	9.40	9.03

THE PRODUCT SPECTRUM OF OUTBOARD MARINE COVERS ALL SEASONS

The "here to there" extremes of the Johnson and Evinrude outboard motor lines for 1967 are illustrated by the 100 horsepower V-4 and the 3 horsepower twin, which is available in both folding and standard versions. A total of 35 models covering 10 horsepower classes will be offered in 1967. An outstanding advance, featured on the 100 horsepower motors, is a new all-electronic ignition system which, for the first time, eliminates points, breakers, condensers and their associated service problems. Spark plug life is greatly extended, power response throughout the speed range is the smoothest ever achieved, trolling performance is dramatically improved.

Stern drives, combining desirable features of inboard and outboard propulsion, continue to grow in popularity, as indicated by the growing acceptance of OMC's "Fastbacks." These units offer many exclusive features such as 90° steering angle, 75° power tilting, electric power shift, stay-on-course steering, and unique floor or transom mounting systems. They're offered in 90, 120, 155, 185 and 200 horsepower models by Evinrude and Johnson dealers and by independent boat manufacturers.

March 16, 1966, at Lake Havasu, Arizona, an Evinrude Starflite 100-S set a new speed record for outboard motors —130.9 mph. The lessons learned in the course of preparing the motor for this run are actually more important than the fact of the record itself. The data acquired has an important bearing on future developments in motor dependability and performance.

In 1967, Evinrude and Johnson dealers will be able to offer a new outboard motor oil formulated especially to our engineering specifications for use in our 50-to-1 gas-oil ratio. The blend of prime quality ingredients assures smoother operation and longer outboard life. It does away with service problems originating in the use of lubricants of unknown quality.

Hibernation is out! Even erstwhile winterphobes are waking up to the new fun season offered by our snowmobiles—Evinrude's Skeeter and Johnson's Skee-Horse. Dealers in the snow belt enjoy a whole new selling season, too. The runaway success of Skeeter and Skee-Horse since their introduction in 1964 is augmented by accessory items such as the new two-passenger sleigh attachment made of molded fiberglass with upholstered seat.

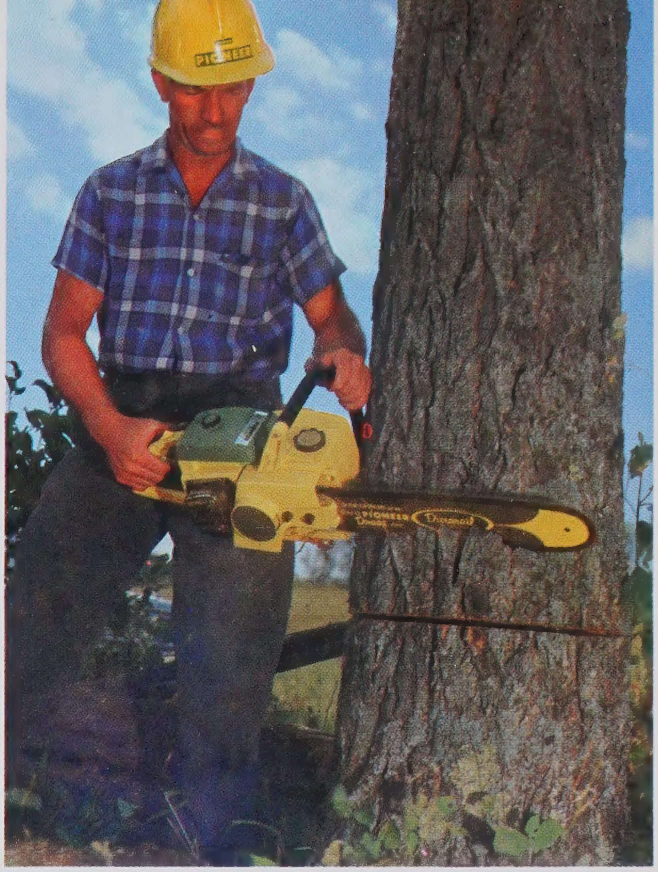
Exhilaration keys the performance of the Evinrude and Johnson boat lines—coupled with a remarkable degree of comfort and safety for every sort of water from the most placid of inland ponds to the challenge of big water. Three Evinrude Gull-Wing and three Johnson Sea-Foil boats make up the 1967 lines—in 14-foot, 16-foot and 19-foot classes with power choices ranging from 90 to 200 horsepower. All feature the hull design pioneered by OMC, which forces displaced water to do the job of cushioning and smoothing the ride.

OMC's young ideas for water recreation opened a new dimension of fun in 1966, with the introduction of the Evinrude Aquanaut and the Johnson Air-Buoy. These floating fresh air stations follow skindivers to allow them to explore where they will, assured of a constant supply of fresh air. It's "natural as breathing"—and achieved without tanks, mouthpieces, or tedious training. Now the amateur can enjoy an underwater world once the domain of experts only.

First choice for comfort and convenience, the Cushman line of golf cars is number one in use all about the land. Design of the running gear incorporates advanced shock-absorbing systems to insure the smoothest ride on the course. A standout safety feature is the exclusive Automatic Seat Brake that engages whenever the driver leaves the seat. No chance for runaways. There's a choice of seven models—four electrics and three with gasoline engine power— in both three and four-wheeled models.

Getting through lawn care chores is an assignment more and more home-owners are tackling with quick, quiet Lawn Boy rotary mowers. Getting the work done, and allowing more time for fun, is a particular talent of this OMC brand—result of painstaking engineering attention to the special demands of rotary mowing. Power units are expressly designed for the work—not merely adapted to it. Features include starting 75% easier than with other mowers . . . fingertip cutting height adjustment . . . fingertip handling, thanks to air-age magnesium alloy housing and ideally balanced weight distribution. Choice of eight Lawn Boy mower models—plus edger-trimmer and Master Gardener rotary tiller.

The 25th anniversary of the introduction of Pioneer Chain Saws is marked by the broadest and most versatile product line ever offered. Pioneer's experience and user orientation is reflected in the design of every unit . . . in features that make these saws first in reliability and strength, in ease and safety of operation. The needs of commercial users, long accustomed to Pioneer performance values, are met by a new series of heavy-duty models with power and capacity to handle anything up to and including a California Redwood. And with a new series of lightweight, low-priced saws, Pioneer has what it takes to serve the burgeoning non-commercial chain-saw market, too.



The work vehicles produced by Cushman Motors Division continue to demonstrate that their remarkable range of uses in modern industry is still expanding. The Haulster and Truckster lines of three and four-wheeled electric or gasoline-powered units are widely used to transport both material and personnel, while the Turf-Truckster, that won't mar a manicured green, continues to provide the ideal maintenance vehicle for parks, institutions, golf courses and the like. Other Cushman vehicles for police work, snow removal, mobile welding units, mobile repair shops and a variety of other specialized tasks, evidence their adaptability. The newly-introduced Cushman Lobster, an eight horsepower utility vehicle, has gained wide acceptance as an in-plant utility car for maintenance, delivery and transport.

OUTBOARD MARINE Corporation